

## Letter from the Editor

We hope you had a great April. Thanks to those of you who attended the Think Realty Expo in Baltimore. We had a GREAT March. We closed 8 loans, ALL first trusts. The total loan volume was 1.9 Mil with the average LTV on the ARV around 63.5%. Our goal is to keep this number between 65% and 70%. April proved to be another busy month as the business continues to grow.

## CHUCKLE'S CORNER

*"An investment in knowledge pays the best interest."*

-Benjamin Franklin

## Food for Thought

We launched the Clear Sky Lightning Fund. This is a 506 (c) fund open only to accredited investors. It will be a debt offering. Please call or email with questions if you want to participate. It is very similar to your investment in Clear Sky Financial.

All Clear Sky Financial notes will be automatically moved to a 506 (b) fund. There will be no changes to note holder interest payments. In the coming weeks we will send you updated paperwork.

### In This Issue:

- + Letter from the Editor
- + Food for Thought
- + Top 9 Reasons Real Estate Investors Use Hard Money Loans
- + Developing a Niche
- + March Deals



## Top 9 Reasons Real Estate Investors Use Hard Money Loans

### 1. Fast loan approvals and funding

Applying for a hard money loan is a simple and straightforward process. In most cases, all a borrower needs to do is to fill out a standard loan application. In many cases, a borrower can receive a conditional approval after a five minute conversation with a hard money lender. Compare this to the countless pages a bank requires a borrower to fill out. Once the application is submitted to the bank, it could be weeks or longer until the borrower receives approval or even a response. The subject property could be snatched up by another real estate investor by that point. Once the real estate investor has been approved for the hard money loan, the loan can be funded within a week or two. If needed to save a deal, reputable hard money lenders can fund a loan within three to five days. Bank loans can take 30 to 45 days even without any major problems popping up.

### 2. Hard money loans make the real estate investor's offer stronger

An offer from a real estate investor with a hard money loan as financing is seen as strong. This is especially helpful in situations where a property has multiple offers from buyers with conventional bank loans. The hard money loan offer stands out.

### 3. Negotiating a lower purchase price with a quick close

As with offers that are all cash, real estate investors may be able to negotiate a lower purchase price with the promise of a shorter escrow period and a quick close. A motivated seller is more likely to negotiate when closing the sale as soon as possible is a top priority.

### 4. Income history and perfect credit scores are not necessary

The most important factors a bank considers when approving loans are typically the borrower's credit and income. If either of these is outside the bank's criteria, the loan will most likely not be approved. Hard money lenders primarily focus on the value of the property that will serve as the collateral for the loan, as well as the equity (down payment for a purchase) the borrower has in the property. The hard money lender must be comfortable with the valuation and equity, as this is what allows them to not be as concerned with the borrower's income and creditworthiness.

### 5. Using leverage to get more deals.

Real estate investors who can purchase properties with cash enjoy many benefits. They can get more of their offers accepted at better prices, and they can buy properties at all-cash auctions. The main disadvantage of doing deals with all cash is that it limits the amount of deals that can be done at one time. An investor may miss a great deal because all their funds are tied up in another project. Using a hard money loan (which generally allows for financing of up to 75% LTV) allows the investor to secure properties while still having enough funds on hand to purchase and complete other projects.

### 6. Reinvesting equity from an existing property into a new property

When a real estate investment opportunity arises, there is often a limited amount of time in which to make a decision and act. If a real estate investor needs to raise money to fund a purchase (or down payment for a purchase) there are usually few options available. Fortunately, cash-out refinance loans from a hard money lender are available to investors who have a sufficient amount of equity in their property. A direct hard money lender can process a cash-out refinance loan and have the funds available for the investor in about a week.

### 7. Getting approved for a loan with recent issues on record.

Many issues on a borrower's record could prevent a bank from providing financing, such as recent short-sales, bankruptcies, loan modifications, and foreclosures. Because hard money lenders are asset-based, they can look past these types of issues and instead focus on the borrower's equity (or down payment) in the subject property. A real estate investor doesn't have to stay on the sidelines for years because of a blemish on their record.

## 8. Obtaining financing when a bank will not provide additional loans.

Many banks will cap the amount of loans to a single borrower at four. Hard money lenders do not have these types of limitations. They are primarily concerned with the borrower's equity in a property. Hard money lenders often view working with an investor with multiple properties as a positive because the borrower has more options and can cross-collateralize properties if needed.

## 9. Getting free advice from a real estate expert.

Working with a hard money lender is a partnership. The hard money lender wants the project to go as smoothly as possible, just as the real estate investor does. The last thing the lender wants is missed payments, unforeseen issues with the property, or any other potential problems that put the project in jeopardy.

A reliable and experienced hard money lender analyzing a loan request or project will give their honest opinion and bring up any issues that could jeopardize the project. The lender may bring up concerns the real estate investor was not aware of that could potentially hurt the project if not addressed. The advice from the hard money lender could also cause the real estate investor to reconsider moving forward with the subject property altogether in order to avoid taking a loss on the project.

# Sam's Corner

## Developing a Niche

To gain the depth of knowledge essential to becoming successful, it is important for investors to develop a focus. Taking the time to build a deep level of understanding in a specific area is integral to long-term success. Once a particular market is mastered, the investor can move on to additional areas using the same in-depth approach. This niche approach is iterative. A single niche is insufficient to expand an investment portfolio indefinitely. The market changes and the investor must adjust to new realities and find niches that work with the new market conditions.

We have iterated our business model by moving from one niche to another. Initially, we began investing in residential real estate and understanding the nuances of selling and renting renovated properties. This niche expertise came from repeating the acquisition, improvement, renting and resale model over and over again. Each time we purchased an asset, we identified the nuances of the acquisition process that made the buy successful. During each renovation, we tracked the timing and cost associated with each repair. Learning what repairs cost in general and then diving more specifically into repair costing at a granular level allowed us to develop expertise on renovation cost control. We didn't do this on just one project, but on dozens. After understanding acquisition methods and costs in detail, we were able to take a top-level view and find out what models work and what "rules of thumb" could be used to make pricing determinations quickly and accurately.

Taking our investment model to another level required understanding the niche of residential renting and property management. We rented to individuals with high credit scores, low credit scores, and government subsidies. The more we rented properties out and maintained landlord/tenant relationships, the more we realized that there is a lot of subtlety to having an efficient landlord/tenant relationship. The source of income or credit score turned out to be a lesser determinate of the success of a lease than the relationship built with a tenant. A tenant that is respected and has immediate resolution to physical problems with their property is much more likely to be retained. A tenant that feels comfortable enough to explain why their rent is behind and what the plan is to catch up is far more likely to get back on track than a tenant where communication is limited. How you communicate with a tenant and how you handle problems is not written in a procedure manual anywhere. Learning these methods requires combining industry best practices and figuring out how your organization can deliver them. This is organization-specific and a niche that we became expert in executing. Tracking performance in any niche is essential. In property management, tracking retention rates, vacancy rates, rent increases, and property maintenance expenses is needed in order to improve performance results.

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Our niche development for the last five years is in the hard money lending space. It is an extension of all of our prior niche learning. We are able to share our knowledge of the flipping and selling space with other investors. In the process of providing loans, we have developed niche expertise in collections and servicing. Our work in this space isn't limited to lending. Accounting and process control are essential to making hard money lending work. There is no one place to learn how to integrate best practices into our model. We are continuously evaluating the environment, looking for the best vendors to support us, and seeking the best practices to institute. Our team is growing and we are determining which metrics are best used to measure our growth and success in this space. When you are building a team and hiring professionals to support your organization, you want to be sure to bring on teams in areas where their niche expertise is also refined.

## March Deals



11609 Bonaventure Dr.



4397 Palton Dr.



819 Clovis St.



2933 Ariel Ct.



8415 Yorkshire Lane



5701 Huntland Rd.



16724 Huron St.



5511 Belmont Dr.



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